

CITY OF LEMON GROVE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2009, through June 30, 2010

TRAFFIC CONGESTION RELIEF FUND

July 1, 2004, through June 30, 2010



JOHN CHIANG
California State Controller

January 2012



JOHN CHIANG
California State Controller

January 10, 2012

The Honorable Mary Teresa Sessom
Mayor of the City of Lemon Grove
3232 Main Street
Lemon Grove, CA 91945

Dear Mayor Sessom:

The State Controller's Office audited the City of Lemon Grove's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements. No adjustment to the funds is required.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

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Audit Report

Summary

The State Controller's Office audited the City of Lemon Grove's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, and that no adjustment to the funds is required.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;

- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of Lemon Grove accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2009, through June 30, 2010.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2004, through June 30, 2010.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on November 18, 2005, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on August 17, 2011. Cathleen Till, Finance Director, responded by letter dated August 24, 2011, disagreeing with the audit results. Based on additional information provided by the city, we concur with its response and have withdrawn the finding. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of Lemon Grove's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

January 10, 2012

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2009, through June 30, 2010**

	Highway Users Tax Allocation ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ —	\$ 219,174
Revenues	<u>524,856</u>	<u>236,913</u>
Total funds available	524,856	456,087
Expenditures	<u>(524,856)</u>	<u>(219,174)</u>
Ending fund balance per city	—	236,913
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ —</u>	<u>\$ 236,913</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Traffic Congestion Relief Fund. The audit period was July 1, 2004, through June 30, 2010.

Finding and Recommendation

FINDING— TCRF expenditure requirement not met

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for allocations received in fiscal year (FY) 2006-07, FY 2007-08, or FY 2008-09 as required by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the Controller. Our audit found that the city did not expend the TCRF allocations within the required time periods.

The allocations not expended within the required time periods total \$212,633 (\$3,569 in FY 2006-07, \$6,290 in FY 2007-08, and \$202,774 in FY 2008-09).

Recommendation

The city must return the TCRF allocations, in the amount of \$212,633, to the State Controller's Office, ATTN: Bill Byall, P.O. Box 942850, Sacramento, CA 94250-5872.

City's Response

Each of the ending fund balances were overstated at the years ending on June 30, 2007, June 30, 2008, June 30, 2009, and June 30, 2010. Due to accounting errors caused by a misunderstanding of account codes, staff turnover in the Engineering and Public Works Departments, and a lack of communication between Finance and those Development Services departments, expenditures were incorrectly coded to the General Fund as well as the Transnet Fund. We discovered the error when Sai Yeoung, the state auditor, reviewed our records. In FY07, FY08, FY09 and FY10 the City paid \$324,000, \$159,000, \$262,000 and \$779,000 respectively out of its Transnet fund for eligible expenses per the TGRF guidelines on street-related expenditures. In addition, the City's General Fund paid over \$250,000 in FY 07, over \$300,000 in FY 08, over \$200,000 in FY 09, and over \$240,000 in FY 10 for eligible expenditures.

...discussed the matter with our independent auditor and have concluded that in order to correct the affected funds, will prepare journal entries that reflect the above errors in our records. In addition, we have improved our internal control processes to prevent such errors from occurring in the first place.

... the City is responsible for not posting appropriate street expenses to the TCRF. However, the City did expend its own funds, as well as those of Transnet to maintain the streets, which is in recognition that maintaining its streets is of utmost importance. The City has suffered shortages in both the Transnet and General Fund due to these accounting errors, and now requests that the audit findings allow for correcting the accounting errors, rather than returning the funds.

The City hereby requests that “Finding 1-City did not meet TCRF expenditure requirements” be amended to recognize the City’s accounting errors and that the fact that funds were actually expended. And amend the “Recommendation” to allow for the transfer of funds in repayment to the General Fund and the Transnet Fund, where the expenditures were incorrectly posted.

SCO’s Comment

After reviewing the city’s response to our draft report and additional documentation provided by the city after the receipt of our draft report, we have concluded that the city did have sufficient expenditures to cover the unexpended TCRF allocations for FY 2006-07, FY 2007-08, and FY 2008-09. We concur with the city’s response. The finding is withdrawn.

**Attachment—
City's Response to
Draft Audit Report**



CITY OF LEMON GROVE

"Best Climate On Earth"

Finance/City Clerk Department

August 24, 2011

Mr. Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Re: City of Lemon Grove Special Gas Tax

In response to the draft of Audit Report Gas Tax Fund and Traffic Congestion Relief Fund, July 1, 2004-2010, I would like to provide additional information and comments.

Each of the ending fund balances were overstated at the years ending on June 30, 2007, June 30, 2008, June 30, 2009, and June 30, 2010. Due to accounting errors caused by a misunderstanding of account codes, staff turnover in the Engineering and Public Works Departments, and a lack of communication between Finance and those Development Services departments, expenditures were incorrectly coded to the General Fund as well as the Transnet Fund. We discovered the error when Sai Yeoung, the state auditor, reviewed our records. In FY07, FY08, FY09 and FY10 the City paid \$324,000, \$159,000, \$262,000 and \$779,000 respectively out of its Transnet fund for eligible expenses per the TGRF guidelines on street-related expenditures. In addition, the City's General Fund paid over \$250,000 in FY 07, over \$300,000 in FY 08, over \$200,000 in FY 09, and over \$240,000 in FY 10 for eligible expenditures.

I have discussed the matter with our independent auditor and have concluded that in order to correct the affected funds, I will prepare journal entries that reflect the above errors in our records; the journal entries will affect the General Fund, the Transnet Fund, and the Traffic Congestion Relief Fund, with the end result being a zero balance in the Traffic Congestion Relief Fund at June 30, 2011. In addition, we have improved our internal control processes to prevent such errors from occurring in the first place.

I realize that the City is responsible for not posting appropriate street expenses to the TCRF. However, the City did expend its own funds, as well as those of Transnet to maintain the streets, which is in recognition that maintaining its streets is of utmost importance. The City has suffered shortages in both the Transnet and General Fund due to these accounting errors, and now requests that the audit findings allow for correcting the accounting errors, rather than returning the funds.

The City hereby requests that "Finding 1-City did not meet TCRF expenditure requirements" be amended to recognize the City's accounting errors and that the fact that funds were actually expended. And amend the "Recommendation" to allow for the transfer of funds in repayment to the General Fund and the Transnet Fund, where the expenditures were incorrectly posted.

Please take this information and request into consideration in the preparation of the final audit. If you have any questions, or need additional information, please do not hesitate to call me. Thank you for your time and attention to this matter.

Sincerely,



Cathy Till
Finance Director

3232 Main Street Lemon Grove California 91945-1705

619.825.3800 FAX: 619.825.3818 www.ci.lemon-grove.ca.us



**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>